



January 2014

# SERVICEMEMBERS CIVIL RELIEF ACT

## Information on Mortgage Protections and Related Education Efforts

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## Why GAO Did This Study

SCRA seeks to protect eligible active duty military personnel in the event that their military service prevents them from meeting financial obligations. Mortgage-related protections include prohibiting mortgage servicers from foreclosing on servicemembers' homes without court orders and capping fees and interest rates at 6 percent. Traditionally, servicemembers received 90 days of protection beyond their active duty service, but this period was extended to 9 months in 2008 and to 1 year in 2012. The legislation that provided the 1-year protection period also mandated that GAO report on these protections.

This report examines (1) available information on changes in the financial well-being of servicemembers who received foreclosure-prevention and mortgage-related interest rate protections under SCRA, including the extent to which they became delinquent and the impact of protection periods; and (2) DOD's partnerships with public- and private-sector entities to provide financial education and counseling about SCRA mortgage protections to servicemembers and views on the effectiveness of these partnerships. To address these objectives, GAO sought and received data from three large mortgage servicers and a large credit union covering a large portion of all mortgage loans outstanding and potentially SCRA-eligible borrowers. GAO also reviewed documentation on DOD's partnerships and relevant education efforts related to SCRA mortgage protections. GAO interviewed DOD officials and partners who provided SCRA mortgage education and counseling.

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January 2014

## SERVICEMEMBERS CIVIL RELIEF ACT

### Information on Mortgage Protections and Related Education Efforts

## What GAO Found

The number of servicemembers with mortgages eligible for Servicemembers Civil Relief Act (SCRA) mortgage protections is unknown because servicers have not collected this information in a comprehensive manner. Based on the limited and nongeneralizable information that GAO obtained from the three mortgage servicers and the credit union, a small percentage of the total loan portfolios were identified as eligible for SCRA protections. Two large servicers had loan-level data on delinquency rates. For those identified as SCRA-eligible, rates ranged from 16 to 20 percent and from 4 to 8 percent for their other military borrowers.

Delinquencies at the credit union were under 1 percent. Some servicemembers appeared to have benefitted from the SCRA interest rate cap of 6 percent, but many eligible borrowers had apparently not taken advantage of this protection. For example, at one institution 82 percent of those who could benefit from the interest rate caps still had mortgage rates above 6 percent. The data also were insufficient to assess the impact of SCRA protections after servicemembers left active duty, although one institution's limited data indicated that military borrowers had a higher risk of delinquency in the first year after leaving active duty. But those with SCRA protections also were more likely to cure delinquencies during this period than the institution's other military borrowers. Given the many limitations to the data, these results should only be considered illustrative. Most of these institutions indicated that they made recent changes to better identify SCRA-eligible borrowers and improve the accuracy of the data.

The Department of Defense (DOD) has partnerships with many federal agencies and nonprofit organizations to help provide financial education to servicemembers, but limited information on the effectiveness of these partnerships exists. DOD and its partners have focused on promoting general financial fitness rather than providing information about SCRA protections. But some partners provide SCRA outreach and support to servicemembers. For example, the Bureau of Consumer Financial Protection has an Office of Servicemember Affairs that provides SCRA outreach to servicemembers and mortgage servicers responsible for complying with the act. Although stakeholders GAO interviewed generally offered favorable views of these partnerships, some said obtaining additional information about educational resources and partnership performance could improve programs. However, DOD has not undertaken any formal evaluations of the effectiveness of these partnerships. This finding is consistent with GAO's July 2012 review of SCRA education efforts, which found that DOD had not assessed the effectiveness of its educational methods and therefore could not ensure it reached servicemembers in the most effective manner. GAO recommended in July 2012 that DOD assess the effectiveness of its efforts to educate servicemembers on SCRA to determine better ways for making servicemembers (including reservists) aware of SCRA rights and benefits. In response to that recommendation, as of December 2013, DOD was reviewing the results of its recent surveys on the overall financial well-being of military families and planned to use these results to adjust training and education for SCRA, as appropriate. GAO's current finding that many servicemembers did not appear to be taking advantage of the SCRA interest rate cap appears to reaffirm that DOD's SCRA education efforts could be improved and that an assessment of the effectiveness of these efforts is still warranted.

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## Abbreviations

DMDC	Defense Manpower Data Center
DOD	Department of Defense
MOU	memorandum of understanding
SCRA	Servicemembers Civil Relief Act
SOF	Status of Forces

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January 28, 2014

The Honorable Bernard Sanders  
Chairman  
The Honorable Richard Burr  
Ranking Member  
Committee on Veterans Affairs  
United States Senate

The Honorable Jeff Miller  
Chairman  
The Honorable Michael H. Michaud  
Ranking Member  
Committee on Veterans Affairs  
House of Representatives

The Servicemembers Civil Relief Act (SCRA) provides protections to active duty military personnel in the event that their military service prevents them from meeting financial obligations.<sup>1</sup> The act provides numerous mortgage-related protections to eligible servicemembers who are on active duty or have recently completed active duty service.<sup>2</sup> The protections include prohibiting mortgage servicers—entities responsible for administering home-mortgage loans—from foreclosing on

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<sup>1</sup>Pub. L. No. 108-189, 117 Stat. 2835 (codified as amended at 50 U.S.C. app. §§ 501 – 597b).

<sup>2</sup>Active duty is defined by 10 U.S.C. § 101(d)(1) as “full-time duty in the active military service of the United States,” including “full-time training duty, annual training duty, and attendance, while in the active military service, at a school designated as a service school by law or by the Secretary of the military department concerned.” SCRA defines servicemembers as members of the uniformed services found in 10 U.S.C. §101(a)(5) which includes all the military services, (Army, Navy, Air Force, Marine Corps, and Coast Guard), and the commissioned corps of the National Oceanic and Atmospheric Administration and the Public Health Service. 50 U.S.C. app. § 511(1). Reserve members who are ordered to report for military service are entitled to SCRA protections beginning on the date of the member’s receipt of the order and ending on the date on which the member reports for military service. 50 U.S.C. app. § 516(a). In the case of the National Guard, military service is defined by the SCRA as “service under a call to active service authorized by the President or the Secretary of Defense for a period of more than 30 consecutive days . . . for purposes of responding to a national emergency declared by the President and supported by Federal funds.” 50 U.S.C. app. § 511(2)(A)(ii). For this review, we collected information related to SCRA protections for active-duty servicemembers and National Guard and Reserve members but did not include officials from the National Oceanic and Atmospheric Administration and the Public Health Service.

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servicemembers' homes without court orders and capping fees and interest rates at 6 percent.

Several legislative changes in recent years have extended the period of time in which eligible servicemembers receive protection from foreclosure under SCRA. Currently, the protections last for up to a year after active duty service. Traditionally, servicemembers received 90 days of protection, but this period was extended to 9 months in 2008. In August 2012, Congress extended the period to 1 year.<sup>3</sup> The extended protection period remains in effect until December 31, 2014, after which the protection period will revert to 90 days.<sup>4</sup> The legislation that provided the 1-year protection period—the Honoring America's Veterans and Caring for Camp Lejeune Families Act of 2012—also mandates that GAO report on the impact of the foreclosure-prevention protections and the varying protection periods and assess the partnerships established by the Secretary of Defense to provide servicemembers financial education and counseling.<sup>5</sup> This report examines (1) available information on changes in the financial well-being of servicemembers who received foreclosure-prevention and mortgage-related interest rate protections under SCRA, including the extent to which servicemembers became delinquent on their mortgages after leaving active duty and the impact of protection periods; and (2) the Department of Defense's (DOD) collaborations—referred to as partnerships in this report—with public- and private-sector entities to provide financial education and counseling about SCRA mortgage protections to servicemembers and views on the effectiveness of these partnerships.

To assess changes in the financial well-being of servicemembers who received SCRA mortgage protections, we obtained and analyzed loan-level data from three financial institutions (two large single-family mortgage servicers and a large credit union) and summary data (not loan-level) from a fourth financial institution (a large single-family mortgage

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<sup>3</sup>Honoring America's Veterans and Caring for Camp Lejeune Families Act of 2012, Pub. L. No. 112-154, § 710(b), 126 Stat. 1165, 1208 (amending 50 U.S.C. app. § 533(c)).

<sup>4</sup>*Id.* at 710(d).

<sup>5</sup>*Id.* at 710(e). Limitations in the availability and quality of financial institution data restricted our reporting objectives and our analysis of the various SCRA protection periods. Consequently, we developed reporting objectives consistent with these limitations, and we note specific data limitations in appendix I and throughout this report, as appropriate.

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servicer).<sup>6</sup> We conducted a quantitative analysis of the loan-level data, which included information on loan status, total fees, and the financial outcomes of borrowers (such as whether the borrowers cured mortgage defaults). Our analysis is not based on a representative sample of all servicemembers eligible for SCRA mortgage protections and is not generalizable. Also, the conclusions we could draw about the effects of SCRA were limited because the data did not always comprehensively identify SCRA-eligible and other military borrowers and reflected a limited time frame.<sup>7</sup> To the extent individual loan-level data were available, we conducted quantitative analyses on the changes in financial well-being of the servicemembers at each institution. Where appropriate, we also relied on a summary (not loan-level) analysis that the fourth institution (a large single-family mortgage servicer) provided of its servicemember loan portfolio. Through interviews with financial institution officials and data testing, we determined the mortgage data were sufficiently reliable for the limited purpose of identifying relative changes in the financial well-being of servicemembers identified as having received SCRA mortgage protections for the servicers in our analysis. But, the relative delinquency and cure rates we derived should be interpreted with caution because of issues with identification of servicemembers and SCRA-eligible borrowers in the data (see app. I for more information). Based on interviews with financial institution officials, we determined our institution-specific analyses were sufficiently reliable for the same limited purpose. We also analyzed results from DOD's Status of Forces (SOF) surveys, which include data on servicemember mortgages and financial well-being.<sup>8</sup> Finally, we interviewed DOD officials (including those of individual military services, staff responsible for the surveys, and staff that oversee a database of active duty status of servicemembers), military associations, and selected financial institutions to obtain available information or reports on the impact of SCRA protections.

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<sup>6</sup>We measured financial well-being in terms of the likelihood of becoming delinquent on a mortgage, curing the mortgage delinquency, and obtaining a reduction in the mortgage interest rate. Our sample of financial institutions includes some servicers that banking regulators cited in 2011 for errors in foreclosure processing, including failures to properly provide SCRA benefits to eligible servicemembers.

<sup>7</sup>Financial institutions are not required to collect SCRA-specific information for the loans in their portfolios.

<sup>8</sup>DOD periodically conducts these web-based surveys of active-duty servicemembers and members of the reserves to evaluate various programs and policies and their impact on servicemembers.

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To examine views on the effectiveness of DOD's partnerships, we reviewed documentation on partnerships with public and private entities that provide financial education and counseling to servicemembers, including efforts related to SCRA mortgage protections. We also interviewed DOD officials (including the individual services) and selected DOD partners to determine how such partnerships provide SCRA mortgage education and counseling and to gather views on and any assessments of the effectiveness of these partnerships.

We conducted this performance audit from June 2013 to January 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

Congress enacted SCRA in December 2003 as a modernized version of the Soldiers' and Sailors' Civil Relief Act of 1940. In addition to providing protections related to residential mortgages, the act covers other types of loans (such as credit card and automobile) and other financial contracts, products, and proceedings, such as rental agreements, eviction, installment contracts, civil judicial and administrative proceedings, motor vehicle leases, life insurance, health insurance, and income tax payments.<sup>9</sup>

SCRA provides the following mortgage-related protections to servicemembers:

- Interest rate cap. Servicemembers who obtain mortgages prior to serving on active duty status are eligible to have their interest rate and

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<sup>9</sup>A servicemember may waive many of the rights and protections offered by SCRA, provided that the waiver meets certain criteria, including that it is in writing and in a document separate from the obligation or liability to which it applies. 50 U.S.C. app. § 517(a). The waiver provision "is designed to induce servicemembers and their creditors to adjust their respective rights privately and to make it clear that no restrictions have been placed upon the usual right of the parties to re-negotiate an obligation." The Judge Advocate General's Legal Center and School, U.S. Army, JA 260, *Servicemembers Civil Relief Act*, 2-8 (March 2006).



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any fees capped at 6 percent.<sup>10</sup> The servicer is to forgive interest and fees above 6 percent per year. Servicemembers must provide written notice to their servicer of their active duty status to avail themselves of this provision.

- Foreclosure proceedings. A servicer cannot sell, foreclose, or seize the property of a servicemember for breach of a preservice obligation unless a court order is issued prior to the foreclosure or unless the servicemember executes a valid waiver.<sup>11</sup> If the servicer files an action in court to enforce the terms of the mortgage, the court may stay any proceedings or adjust the obligation.
- Fines and penalties. A court may reduce or waive a fine or penalty incurred by a servicemember who fails to perform a contractual obligation and incurs the penalty as a result if the servicemember was in military service at the time the fine or penalty was incurred and the servicemember's ability to perform the obligation was materially affected by his or her military service. Federal authorities have applied this provision to prepayment penalties incurred by servicemembers who relocate due to permanent change-of-station orders and consequently sell their homes and pay off mortgages early.
- Adverse credit reporting. A servicer may not report adverse credit information to a credit reporting agency solely because

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<sup>10</sup>50 U.S.C. app. § 527. The act defines interest to include service charges, renewal charges, fees, or any other charges (except bona fide insurance). 50 U.S.C. app. § 527(d). A servicer has the right to challenge the interest-rate reduction in court, which may grant relief if the court determines that the servicemember's ability to pay interest above 6 percent is "not materially affected by reason of the servicemember's military service." 50 U.S.C. app. § 527(c).

<sup>11</sup>50 U.S.C. app. § 533(c). This provision is directed at nonjudicial foreclosures. Once a mortgage servicer decides to foreclose, the servicer proceeds with it follows either a judicial or nonjudicial foreclosure method, depending on the law of the state in which the property is located. In a judicial foreclosure, servicers initiate a formal foreclosure action by filing a lawsuit in court. At the conclusion of a hearing, the presiding judge, in the appropriate circumstances, will issue an order for the foreclosure to proceed. A nonjudicial foreclosure process takes place outside the courtroom and is typically conducted by the trustee named in the deed-of-trust document. Trustees, and sometimes servicers, generally send a notice of default to the borrower and publish a notice of sale in area newspapers or legal publications. Pursuant to 50 U.S.C. § 533(c), if a lender in a nonjudicial foreclosure state forecloses on a servicemember that who took out his or her mortgage prior to active duty service without a court order during or within a year after the servicemember's active duty status, the foreclosure is invalid..

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servicemembers exercise their SCRA rights, including requests to have their mortgage interest rates and fees capped at 6 percent.<sup>12</sup>

Both servicemembers and servicers have responsibility for activating or applying SCRA protections. For example, to receive the interest-rate benefit, servicemembers must identify themselves as active duty military and provide a copy of their military orders to their financial institution. However, the responsibility of extending SCRA foreclosure protections to eligible servicemembers often falls to mortgage servicers. The burden is on the financial institution to ensure that borrowers are not active duty military before conducting foreclosure proceedings. Eligible servicemembers are protected even if they do not tell their financial institution about their active duty status. One of the primary tools mortgage servicers use to comply with SCRA is a website operated by DOD's Defense Manpower Data Center (DMDC) that allows mortgage servicers and others to query DMDC's database to determine the active duty status of a servicemember.<sup>13</sup>

Under SCRA, the Secretaries of each military service and the Secretary of Homeland Security have the primary responsibility for ensuring that servicemembers receive information on their SCRA rights and protections.<sup>14</sup> Typically, legal assistance attorneys on military installations provide servicemembers with information on SCRA during routine briefings, in handouts, and during one-on-one sessions. Additionally, DOD has established public and private partnerships to assist in the financial education of servicemembers.

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<sup>12</sup>50 U.S.C. app. § 518(3).

<sup>13</sup>We previously reported that mortgage servicers had some challenges using DMDC to correctly identify the military status of some borrowers. For example, representatives from some mortgage servicers said that the website only allowed them to check the eligibility status of one borrower at a time, and they said that some servicemembers, such as those serving in the Special Forces, did not appear in the database. However, in 2012 DOD developed a way for financial institutions and others to conduct batch queries of the database for up to 250,000 servicemembers at a time. DOD officials said that active duty status has been updated for all servicemembers, including those on special operations. See GAO, *Mortgage Foreclosures: Regulatory Oversight of Compliance with Servicemembers Civil Relief Act Has Been Limited*, [GAO-12-700](#) (Washington, D.C.: July 17, 2012).

<sup>14</sup>Pub. L. No. 108-109, § 105, 117 Stat. 2835, 2839 (codified at 50 U.S.C. app. § 515); see also, National Defense Authorization Act of Fiscal Year 2006, Pub. L. No. 109-163, § 690, 119 Stat. 3136, 3337.

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## Limited Data Suggest SCRA Benefits Some Servicemembers but Impact of Protection Periods Unknown

The limited data we obtained from four financial institutions showed that a small fraction of their borrowers qualified for SCRA protections. Our analysis suggests that SCRA-protected borrowers generally had higher rates of delinquency, although this pattern was not consistent across the institutions in our sample and cannot be generalized.<sup>15</sup> However, SCRA protections may benefit some servicemembers. SCRA-protected borrowers at two of the three institutions from which we had usable data were more likely to cure their mortgage delinquencies than other military borrowers. Some servicemembers also appeared to have benefitted from the SCRA interest rate cap. Financial institutions we contacted could not provide sufficient data to assess the impact of different protection periods, but our analysis indicates that mortgage delinquencies appeared to increase in the first year after active duty.

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## Actual Number of Servicemembers Eligible for SCRA Mortgage Protections Unknown

Based on our interviews and the data sources we reviewed, the number of servicemembers with mortgages eligible for SCRA protections is not known because servicers have not systematically collected this information, although limited data are available. Federal banking regulators do not generally require financial institutions to report information on SCRA-eligible loans or on the number and size of loans that they service for servicemembers.<sup>16</sup> SCRA compliance requires that financial institutions check whether a borrower is an active duty servicemember and therefore eligible for protection under SCRA before initiating a foreclosure proceeding. However, institutions are not required to conduct these checks on loans in the rest of their portfolio, and two told us that they do not routinely check a borrower's military status unless the borrower is delinquent on the mortgage. Consequently, the number of SCRA-eligible loans that these two institutions reported to us only includes delinquent borrowers and those who reported their SCRA

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<sup>15</sup>In addition to the loans not constituting a statistically representative sample, the various servicer datasets identify SCRA status imperfectly and provide data for different periods. Although the results in this section should be interpreted with caution, we believe we have taken steps to draw reasonable conclusions by conducting separate analyses, identifying outliers, and acknowledging caveats. See appendix I for more details.

<sup>16</sup>In 2011, several federal banking regulators directed 14 mortgage servicers to engage third-party consultants to conduct a file review of 2009 and 2010 foreclosure actions. Consultants were instructed to review 100 percent of the files identified as being associated with borrowers protected by SCRA, among other high-risk categories. As part of this process, consultants compiled a summary count of the number of borrowers who had their SCRA protections violated; however, that information was not comprehensive enough for us to use to determine the overall number of SCRA-eligible borrowers.

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eligibility to the financial institution. Two other institutions were able to more comprehensively report the number of SCRA-eligible loans in their portfolio because they routinely check their portfolio against the DMDC database. Additionally, only one of the financial institutions we contacted was able to produce historical data on the total number of known SCRA-eligible loans in its portfolio.

Although exact information on the total number of servicemembers eligible for the mortgage protections under SCRA is not known, DOD data provide some context for approximating the population of servicemembers who are homeowners with mortgage payments and who therefore might be eligible for SCRA protections.<sup>17</sup> According to DOD data, in 2012 there were approximately 1.4 million active duty servicemembers and an additional 848,000 National Guard and Reserve members, of which approximately 104,000 were deployed. While DOD does not maintain data on the number of servicemembers who are homeowners, DOD's 2012 SOF survey indicated that approximately 30 percent of active duty military made mortgage payments.<sup>18</sup> For reservists, DOD's most recent survey of homeownership in June 2009 indicated that 53 percent of reservists made mortgage payments.<sup>19</sup> According to DOD officials, industry trade group representatives, SCRA experts, and military service organizations, the servicemembers most likely to be eligible for SCRA mortgage protections are members of the Reserve components because they were more likely to have had mortgages before entering active duty service.

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<sup>17</sup>DOD relies on the private sector as the primary source of housing for personnel normally eligible to draw a housing allowance. In May 2011 we reported that while DOD may require certain servicemembers to live on base, such as key personnel and most junior-enlisted personnel without dependents, about two-thirds of active-duty service members and their families in the United States choose to live off base. GAO, *Military Housing: Enhancements Need to Housing Allowance Process and Information Sharing Among Services*, [GAO-11-462](#), (Washington, D.C.: May 16, 2011).

<sup>18</sup>DOD, *Status of Forces Survey of Active Duty Members* (February 2012). This survey question had a 91 percent response rate and the margin of error was plus or minus 1 percent. Survey results do not include responses from members of the Coast Guard and Coast Guard Reserve.

<sup>19</sup>DOD, *Status of Forces Survey of Reserve Component Members* (June 2009). This survey question had a 94 percent response rate and the margin of error was plus or minus 2 percent. Survey results do not include responses from members of the Coast Guard and Coast Guard Reserve.

Although comprehensive data on the number of servicemembers eligible for SCRA are not available, four financial institutions provided us with some data on the servicemembers they have identified in their portfolios in 2012. According to these data, a small percentage of the financial institutions' total loan portfolios were identified as being eligible for SCRA protections. Table 1 details the number of loans held by each of the institutions from which we obtained data, including the estimated number of loans belonging to servicemembers and the number of loans the institutions identified as SCRA-eligible. Collectively, we estimate that the financial institutions from which we received useable data service approximately 27-29 percent of the mortgages held by servicemembers. This estimate is based on information from DOD's SOF results on the estimated percentage of active duty servicemembers and reservists who make mortgage payments and the reported and estimated number of military borrowers that each of these institutions reported in their portfolios.<sup>20</sup>

**Table 1: Total Loans and Known Military and SCRA-Eligible Loans at Selected Institutions, 2012**

	<b>Total loans</b>	<b>Known number of military loans (percent of total loans)</b>	<b>Known number of SCRA-eligible loans (percent of total loans)</b>	<b>Percent of military loans SCRA-eligible</b>
Financial institution 1	<b>9,467,074</b>	136,350 (1.44%)	17,277 (0.18%)	12.67%
Financial institution 2	<b>8,368,606</b>	64,781 (0.77)	14,568 (0.17)	22.49
Financial institution 3	<b>7,321,325</b>	24,517 (0.33 )	9,661 (0.13)	39.41
Financial institution 4	<b>170,968</b>	Not available	391 (0.23)	Not available

Source: GAO analysis of financial institution data.

Notes: Financial institutions 1 and 2 routinely checked their loan portfolio against the DMDC database to identify military borrowers and those who are SCRA-eligible. Financial institutions 3 and 4 only checked the military status of borrowers when the borrowers were delinquent on their loans or when military borrowers self-identify as such, so those financial institutions' identification of military and SCRA-eligible borrowers likely is an undercount of the total military borrower population in their mortgage portfolios. In addition, while the DMDC database that banks use to check military status is relatively comprehensive, it has known data issues that could result in some misidentifications of the

<sup>20</sup>We developed this estimate by using DOD's SOF survey estimate of the percentage of active duty military, reservists who have a mortgage, and the size of the active duty and reservist population to get an estimated number of active duty servicemembers and reservists who have mortgages. We then added the total number of military loans identified by three of the four institutions, and used an approximation of military loans provided by the fourth institution. Using the estimated number of servicemembers with mortgages and the number of identified military borrowers in our institutions' portfolios, we estimated the percentage of the military mortgage population that our sample represents, using confidence intervals from the SOF survey to create a range around our estimate.

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active duty status and SCRA eligibility of servicemembers. See [GAO-12-700](#). All counts should be considered approximations only.

Representatives with three of the financial institutions told us they have made changes to their data systems over the past 2 years to help better identify whether mortgage holders were active duty military and eligible for SCRA protections.<sup>21</sup> They attributed these changes, in part, to DOD's April 2012 upgrade of the DMDC database to allow financial institutions to check on the active duty status of up to 250,000 borrowers at once, as opposed to checking one individual at a time. Since then, some of the institutions had made changes to their systems to use the DMDC database to routinely check the military status of borrowers, thereby improving their available data on SCRA-eligible borrowers. Of the financial institutions we contacted, representatives with two told us that they now regularly check their entire loan portfolio against the DMDC database. Representatives with the other institutions said that they only check the military status of delinquent borrowers. To illustrate the extent to which these changes could improve the accuracy of the data on SCRA-eligible borrowers, representatives of one financial institution told us they used to rely on postal codes to help identify borrowers on or near military bases to determine whether they were likely servicemembers. This institution has since switched to a data system that allows a check of its entire portfolio against the DMDC database so that the institution can more accurately identify which borrowers are also servicemembers.

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### SCRA-Protected Borrowers Generally Had Higher Rates of Mortgage Delinquency, with Protections Appearing to Benefit Some Servicemembers

Our analysis of data from three financial institutions suggests that SCRA-protected borrowers were substantially more likely to experience delinquency at any time than their non-SCRA-protected military counterparts, with one exception. The institutions provided us data with substantial inherent limitations that prevented us from fully analyzing the repayment practices of their military borrowers. However, the limited data allowed us to conduct some analyses of borrowers' delinquency rates and the rates at which delinquent borrowers became current on their mortgages. At two servicers, we found that SCRA-protected borrowers had delinquency rates from 16 to 20 percent. In contrast, non-SCRA-protected military borrowers had delinquency rates that ranged from 4 to 8 percent. These rates also varied across time within an institution. However, delinquency rates for the large credit union we analyzed were

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<sup>21</sup>We interviewed representatives of five institutions but only were able to obtain useable data from four.

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significantly smaller, and its SCRA-protected borrowers were less likely to be delinquent. For example, in the fourth quarter of 2012, 0.01 percent of SCRA-protected borrowers at this institution were delinquent on their loans, while 0.56 percent of the remaining borrowers in its loan portfolio were delinquent. The variation in delinquency rates among these financial institutions indicates that factors in addition to SCRA protection likely influence an institution's delinquency rates, including differences among each institution's lending standards and policies or borrower characteristics, such as income and marital status.

Although it should be interpreted with caution because the results were not consistent at all three institutions for which we could conduct the analysis, our data analysis also suggests that borrowers protected by SCRA may have a better chance of curing their mortgage delinquency—making payments sufficient to restore their loan to current status—than those without the protections. The summary loan data we obtained from one institution show that its SCRA-protected military borrowers who were 90 or more days delinquent were almost twice as likely to cure their delinquency within a year than civilian borrowers and almost five times as likely as other military borrowers who were not SCRA-protected. Our analysis of loan-level data from another institution also suggested that its SCRA-protected borrowers had a higher likelihood of curing their mortgage delinquency than military borrowers not SCRA-protected, although their chances of curing the delinquency declined after leaving active duty.<sup>22</sup> However, our analysis of data provided by a third institution suggested that cure rates for active duty SCRA-protected servicemembers were substantially lower than their noneligible active duty counterparts. Again, these differences in cure rates among the three institutions could reflect differences in institution policies or borrower characteristics.

Our data analysis also indicates that at least some servicemembers have benefitted from the SCRA interest rate cap. As discussed earlier, servicemembers must provide written notice to their servicer of their active duty status to avail themselves of this provision. Analysis of one institution's data showed that approximately 32 percent of identified SCRA-eligible borrowers had a loan with an interest rate above 6 percent

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<sup>22</sup>To determine the likelihood of curing a loan, we conducted simple and multivariate logistic regressions to estimate the probability of different types of borrowers who had experienced a delinquency within the data's time frame becoming current on their loan in the next period. See appendix I for more information.

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at origination. According to data provided by this institution—which included the initial interest rate and a current interest rate for 9 consecutive months in 2013—some SCRA-eligible borrowers saw their interest rates reduced to 6 percent or less, but almost 82 percent of the loans for those eligible for such a reduction retained rates above 6 percent. However, SCRA-eligible borrowers with interest rates higher than 6 percent had a larger average drop in interest rates from origination through the first 9 months of 2013 than non-SCRA-eligible military borrowers or SCRA-protected borrowers with initial rates below 6 percent. We cannot determine how many rate reductions resulted from the application of SCRA protections; other potential reasons for rate decreases include refinancing or a rate reset on adjustable-rate loans. Several financial institutions told us that more servicemembers could benefit from the rate cap protection if they provided proof of their active duty status to their mortgage servicer. For example, representatives from one financial institution told us that they receive military documentation (orders, commanding officer letters, etc.) on 31 percent of their SCRA-eligible borrowers—as a result, up to 69 percent may not be receiving the full financial benefit that SCRA affords.<sup>23</sup>

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**Available Data Are  
Insufficient to Assess  
Different Protection  
Periods, but Mortgage  
Delinquencies Appeared  
to Increase after Active  
Duty**

The data financial institutions we contacted were able to provide were generally not sufficient to assess the impact of the various protection periods in effect since the enactment of SCRA: 90 days, 9 months, and 1 year. Because most of the institutions we interviewed reported that they made enhancements to their data systems in 2012 to better identify SCRA-eligible borrowers, they were unable to provide data for both SCRA-eligible borrowers and a comparison group of other military borrowers before the end of 2011, when the protection periods were shorter. Furthermore, none of our data that included SCRA-eligible borrowers and a comparison group of non-SCRA-eligible borrowers covered more than a 1-year span. As a result, the data were insufficient to evaluate the effectiveness of SCRA in enhancing the longer-term financial well-being of the servicemember leaving active duty or over the life of the mortgage. Finally, our measures of financial well-being—likelihood of becoming delinquent, curing a delinquency, and obtaining a reduction in the mortgage interest rate—are not comprehensive measures of financial well-being, but were the best measures available to us in the data.

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<sup>23</sup>Some of the borrowers who did not provide documentation to the financial institution already may have had mortgage rates lower than 6 percent.



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Our analysis of one servicer's data suggests that all military borrowers—SCRA-protected or not—had a higher likelihood of becoming delinquent in the first year after they left active duty than when in the military. For example, in the loan-level data from an institution that used the DMDC database to check the military status of its entire loan portfolio, all of its military borrowers had a higher likelihood of becoming delinquent in the first year after they left active duty than when in service, with that risk declining somewhat over the course of the year for non-SCRA-protected military borrowers. Although not generalizable, these findings are consistent with concerns, described below, that servicemembers may face financial vulnerability after separating from service. Those who were SCRA-protected had a smaller increase in delinquency rates in the first year after leaving active duty than other military borrowers, but this may be due to SCRA-protected borrowers having their loans become delinquent at higher rates before leaving active duty and not to a protective effect of SCRA.

Although we were generally unable to obtain data to analyze the impact of the varying protection periods, data from one institution provided some indication of a positive effect of SCRA protection for servicemembers receiving up to a year of protection. Analyzable data from one institution on the mortgage status of all its military borrowers for a 9-month period in 2013, including those who had left active duty service within the last year, indicated that SCRA-protected borrowers who were within the 1-year protection period after leaving active duty service had a higher chance of curing their delinquencies than did the institution's other military borrowers who had left active duty service. We found this effect despite this being the same institution where we found that SCRA-eligible borrowers were less likely to cure their mortgage delinquencies when still on active duty (compared with non-SCRA-eligible borrowers).

Overall, the findings from our data analysis on delinquencies and cure rates were consistent with our interviews and past work showing that the first year after servicemembers leave active duty can be a time of financial vulnerability. We previously reported that while the overall unemployment rate for military veterans was comparable to that of non-veterans, the unemployment rate for veterans more recently separated from the military was higher than for civilians and other veterans.<sup>24</sup>

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<sup>24</sup>GAO, *Veterans' Employment and Training: Better Targeting, Coordinating, and Reporting Needed to Enhance Program Effectiveness*, [GAO-13-29](#) (Washington, D.C.: Dec. 13, 2012).

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Additionally, representatives from the National Guard and Army Reserve said that Guard and Reserve members may return to jobs in the civilian sector that could be lower paying or less stable than their previous military work. Based on a June 2012 DOD SOF survey of Reserve component members, an estimated 40 percent of reservists considered reemployment, returning to work, or financial stability as their biggest concern about returning from their most recent activation or deployment.<sup>25</sup>

As we reported in 2012, some financial institutions extended SCRA protections beyond those stated in the act, as a result of identified SCRA violations and investigations in 2011.<sup>26</sup> For example, three mortgage servicers we included in this review noted that they had reduced the interest rate charged on servicemembers' mortgages to 4 percent—below the 6 percent required in SCRA. Additionally, the National Mortgage Settlement in February 2012 required five mortgage servicers to extend foreclosure protections to any servicemember—regardless of whether their mortgage was obtained prior to active duty status—who receives Hostile Fire/Imminent Danger Pay or serving at a location more than 750 miles away from his or her home.<sup>27</sup> As a result, any servicemember meeting these conditions may not be foreclosed upon without a court order. Two financial institutions we interviewed extended SCRA foreclosure protections to all active duty servicemembers. One of the financial institutions told us that they have made SCRA foreclosure protections available to all active duty servicemembers for the loans that

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<sup>25</sup>DOD, *Status of Forces Survey of Reserve Component Members* (June 2012). This question was asked to reservists who had been activated in the past 24 months but were not currently activated. Estimates from the survey for each category were 16, 12, and 15 percent, respectively, and have a margin of error of plus or minus 4 percentage points. This survey question had a response rate of 20 percent, and survey results do not include responses from members of the Coast Guard and Coast Guard Reserve.

<sup>26</sup>[GAO-12-700](#). In response to deficiencies in the foreclosure process that various mortgage servicers publicly announced beginning in September 2010, the Department of Justice, Board of Governors of the Federal Reserve System, and Office of the Comptroller of the Currency took enforcement actions in 2011 to require mortgage servicers to conduct historical reviews of their mortgage loan files. The goals of the reviews included determining if servicemembers who were eligible for the SCRA mortgage protections received them. If violations were identified, the mortgage servicers were required to provide compensation to the servicemembers. Additionally, the Chairman of the House Committee on Oversight and Government Reform sent letters in 2011 to 10 residential mortgage servicing companies in the United States to request detailed information on their SCRA compliance.

<sup>27</sup>*United States v. Bank of America Corp.*, No. 1:12-CV-00361 (D.D.C. Apr. 4, 2012).

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they own and service (thus, about 16 percent of their mortgage portfolio receives SCRA protection). However, officials at this institution said that they were bound by investor guidelines for the loans they service for other investors, such as Fannie Mae, the Department of Housing and Urban Development, and private investors. The officials said that many of the large investors have not revised their rules to extend SCRA protections; as a result, the institution has been unable to extend SCRA protections to all noneligible borrowers whose loans are owned by these entities.<sup>28</sup>

None of the financial institutions we interviewed advocated for a change in the length of time that servicemembers received SCRA protection. Officials at one institution told us that they considered a 1-year period a reasonable amount of time for servicemembers to gain financial stability after leaving active duty and that they implemented the 1-year protection period before it became law. One attorney we interviewed who has a significant SCRA-related practice supported the extension of the SCRA foreclosure protection to 1 year because the revised timeframe matches the mortgage interest-rate protection period, which has remained at 1 year since 2008, when mortgages were added to the SCRA provision that limits interest rates to 6-percent.<sup>29</sup> In contrast, a representative of one of the military support organizations we interviewed noted that, based on his interactions with servicemembers, the effect of extending the foreclosure protection from 9 months to 1 year has been negligible, although he also said that the extension was a positive development.

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<sup>28</sup>In August 2013, Freddie Mac adopted guidelines for its loans to extend SCRA foreclosure protections to all borrowers who are servicemembers for loans it owned, regardless of whether they took out the mortgage prior to becoming active duty military. Representatives at one financial institution we spoke with said that other government-sponsored entities have not followed suit.

<sup>29</sup>Housing and Economic Recovery Act of 2008, Pub. L. No. 110-289, § 2203(b)(1), 122 Stat. 2654, 2849. Under SCRA, the interest rate on mortgages, and similar debts, taken out prior to entering military service is limited to 6 percent for the period of military service and 1 year thereafter. 50 U.S.C. app. § 527(a)(1)(A).

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## DOD and Various Partners Provide Financial Education, but Limited Information on Effectiveness of Efforts Exists

DOD has entered into partnerships with many federal agencies and nonprofit organizations to help provide financial education to servicemembers, but limited information on the effectiveness of these efforts exists. Under SCRA, the Secretaries of the individual services and the Secretary of Homeland Security have the primary responsibility for ensuring that servicemembers receive information on SCRA rights and protections.<sup>30</sup> Servicemembers are informed of their SCRA rights in a variety of ways. For example, briefings are provided on military bases and during deployment activities; legal assistance attorneys provide counseling; and a number of outreach media, such as publications and websites, are aimed at informing servicemembers of their SCRA rights. DOD also has entered into partnerships with many other federal agencies and nonprofit organizations to help provide financial education to servicemembers. These efforts include promoting awareness of personal finances, helping servicemembers and their families increase savings and reduce debt, and educating them about predatory lending practices. As shown in fig. 1, the external partners that worked with DOD have included financial regulators and nonprofit organizations.<sup>31</sup>

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<sup>30</sup>Pub. L. No. 108-109, § 105, 117 Stat. 2835, 2839 (codified at 50 U.S.C. app. § 515); see also, National Defense Authorization Act of Fiscal Year 2006, Pub. L. No. 109-163, § 690, 119 Stat. 3136, 3337.

<sup>31</sup>In providing technical edits to a draft of this report, officials with the Office of the Comptroller of the Currency noted that the agency is seeking to establish itself as one of DOD's financial education partners.

Figure 1: External Organizations Acting as DOD Financial Education Partners, as of December 2013

Federal entities	Nonprofit organizations
<ul style="list-style-type: none"> <li>• Board of Governors of the Federal Reserve System</li> <li>• Department of the Treasury</li> <li>• Department of Housing and Urban Development</li> <li>• Department of Labor</li> <li>• Federal Citizen Information Center, General Services Administration</li> <li>• Federal Deposit Insurance Corporation</li> <li>• Federal Trade Commission</li> <li>• Internal Revenue Service</li> <li>• National Institute of Food and Agriculture, Department of Agriculture</li> <li>• Office of Servicemember Affairs, Bureau of Consumer Financial Protection</li> <li>• Securities and Exchange Commission</li> <li>• Thrift Savings Plan/Federal Retirement Thrift Investment Board</li> </ul>	<ul style="list-style-type: none"> <li>• Air Force Aid Society</li> <li>• American Financial Services Association Education Foundation</li> <li>• Army Emergency Relief</li> <li>• Association for Financial Counseling and Planning Education</li> <li>• Association of Military Banks of America</li> <li>• Consumer Federation of America</li> <li>• Council of Better Business Bureaus</li> <li>• Defense Credit Union Council</li> <li>• Financial Industry Regulatory Authority Investor Education Foundation</li> <li>• Institute of Consumer Financial Education</li> <li>• Jump\$tart Coalition for Personal Financial Literacy</li> <li>• National Association of Federal Credit Unions</li> <li>• National Association of Insurance Commissioners</li> <li>• National Endowment for Financial Education</li> <li>• National Military Family Association</li> <li>• Navy-Marine Corps Relief Society</li> <li>• North American Securities Administrators Association</li> <li>• Women's Institute for Financial Education</li> </ul>

Source: DOD.

According to DOD officials, these external partners primarily focus on promoting general financial fitness and well-being as part of DOD's

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Financial Readiness Campaign.<sup>32</sup> For example, partners including the Consumer Federation of America, the Better Business Bureau Military Line, and the Financial Industry Regulatory Authority's Investor Education Foundation provide financial education resources free of charge to servicemembers. DOD and the Consumer Federation of America also conduct the Military Saves Campaign every year, a social marketing campaign to persuade, motivate, and encourage military families to save money every month and to convince leaders and organizations to aggressively promote automatic savings. DOD has partnerships with the Department of the Treasury and the Federal Trade Commission to address consumer awareness, identity theft, and insurance scams targeted at servicemembers and their families.

In addition, DOD officials noted that some partners provide SCRA outreach and support to servicemembers. For example, the Bureau of Consumer Financial Protection has an Office of Servicemember Affairs that provides SCRA outreach to servicemembers and mortgage servicers responsible for complying with the act. This agency also works directly with servicemembers by collecting consumer complaints against depository institutions and coordinating those complaints with depository institutions to get a response from them and, if necessary, appropriate legal assistance offices. Similarly, nonprofit partners including the National Military Family Association, the Association of Military Banks of America, and the National Association of Federal Credit Unions provide information on SCRA protections to their members. But DOD officials also noted that partners are not required by DOD to provide SCRA education, and that such education may represent a rather small component of the partnership efforts.

DOD established its financial education partnerships by signing memorandums of understanding (MOU) with the federal agencies and nonprofit organizations engaged in its Financial Readiness Campaign. The MOUs include the organizations' pledges to support the efforts of military personnel responsible for providing financial education and financial counseling to servicemembers and their families as well as additional responsibilities of the individual partners. According to the

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<sup>32</sup>Established in 2003, the campaign was designed to give servicemembers and their families a chance to learn more about personal finances and encourage them to better manage their money. The campaign is directed toward junior enlisted servicemembers who are most at risk and spouses of servicemembers who have not received the personal finance information that is part of military training.

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program manager of DOD's Financial Readiness Program (in the Office of Family Policy, Children and Youth, which collaborates with the partners), there are no formal expectations that any of the partners provide education about SCRA protections. She noted that such a requirement would not make sense for some partners, including those that do not interact directly with servicemembers but instead provide educational materials about financial well-being. The manager said that it was important that all of DOD's partners be aware of the SCRA protections, and she planned to remind each of them about the SCRA protections in an upcoming partners meeting.

The program manager noted that although her office has not conducted any formal evaluations of the partnerships to determine how effective the partners have been in fulfilling the educational responsibilities outlined in their MOUs, she believes that they have functioned well. According to personal financial managers in the individual services (who work with the personal financial advisors who provide financial education to servicemembers at military installations) and representatives from a military association, the education partnerships have been working well overall. But they also told us that obtaining additional information about the educational resources available through the partnerships and their performance would be helpful. For example, one association noted that it could benefit from a central website to serve as a clearinghouse for educational information from the various financial education partners. Staff from another organization said that DOD should regularly review all of these partners to ensure they were fulfilling their responsibilities. DOD officials told us they would likely discuss these suggestions at upcoming meetings with their financial education partners.

The program manager of the Personal Financial Readiness Program also noted that to manage the partnerships, she regularly communicates with the partners to stay informed of their activities. In addition, she said that the Office of Family Policy, Children and Youth has been encouraging individual installation commanders to enter into agreements with local nonprofit organizations. The local partners would provide education assistance more tailored to servicemembers' situations than the more global information the DOD partners provided.

As we noted in our 2012 report, DOD has surveyed servicemembers on whether they had received training on SCRA protections, but had not

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assessed the effectiveness of its educational methods.<sup>33</sup> To assess servicemembers' awareness of SCRA protections, in 2008 DOD asked in its SOF surveys if active duty servicemembers and members of the Reserve components had received SCRA training. Forty-seven percent of members of the Reserve components—including those activated in 2008—reported that they had received SCRA training and 35 percent of regular active duty servicemembers reported that they had received training.<sup>34</sup> Without an assessment of the effectiveness of its educational methods (for example, by using focus groups of servicemembers or results of testing to reinforce retention of SCRA information), we noted that DOD might not be able to ensure it reached servicemembers in the most effective manner. We recommended that DOD assess the effectiveness of its efforts to educate servicemembers on SCRA and determine better ways for making servicemembers aware of their SCRA rights and benefits, including improving the ways in which reservists obtain such information.

In response to our recommendation, as of December 2013, DOD was reviewing the results of its recent surveys on the overall financial well-being of military families. The surveys have been administered to three groups: servicemembers, military financial counselors, and military legal assistance attorneys. While the surveys are not focused solely on SCRA, they take into account all financial products, including mortgages and student loans, covered by SCRA. DOD officials explained that they would use the results, including any recommendations from legal assistance attorneys, to adjust training and education on SCRA benefits, should such issues be identified. Our findings for this report—that many servicemembers appeared not to have taken advantage of their ability to reduce their mortgage interest rates as entitled—appear to reaffirm that DOD's SCRA education efforts could be improved and that an assessment of the effectiveness of these efforts is still warranted.

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<sup>33</sup>GAO-12-700. Under SCRA, the service Secretaries have primary responsibility for ensuring that written information on SCRA rights and benefits is provided to servicemembers. 50 U.S.C. app. § 515.

<sup>34</sup>DOD, *Status of Forces Survey of Active Duty Members* (August 2008) and *Status of Forces Survey of Reserve Component Members* (November 2008). The margin of error for active duty servicemembers and Reserve component members is plus or minus 2 percent. Survey results do not include responses from members of the Coast Guard and Coast Guard Reserve.



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## Agency Comments

We provided a draft of this report to the Department of Defense, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Bureau of Consumer Financial Protection for comment. The Department of Defense and the Office of the Comptroller of the Currency provided technical comments that were incorporated, as appropriate.

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We are sending copies of this report to interested congressional committees. We will also send copies to the Chairman of the Board of Governors of the Federal Reserve System, the Secretary of Defense, the Comptroller of the Currency, and the Director of the Consumer Financial Protection Bureau. In addition, this report will be available at no charge on the GAO web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or [EvansL@gao.gov](mailto:EvansL@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.



Lawrance L. Evans, Jr.  
Director, Financial Markets  
and Community Investment

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# Appendix I: Objectives, Scope, and Methodology

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This report examines (1) available information on changes in the financial well-being of servicemembers who received foreclosure-prevention and mortgage-related interest rate protections under SCRA, including the extent to which servicemembers became delinquent on their mortgages after leaving active duty and the impact of protection periods;<sup>1</sup> and (2) the Department of Defense's (DOD) partnerships with public- and private-sector entities to provide financial education and counseling about SCRA mortgage protections to servicemembers and views on the effectiveness of these partnerships.<sup>2</sup>

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## Information on Changes in the Financial Well-Being of Servicemembers with SCRA Protections

To assess changes in the financial well-being of servicemembers who receive SCRA mortgage protections, including the extent to which servicemembers became delinquent on their mortgages after leaving active duty and the impact of protection periods, we analyzed legislation and reviewed our prior work on SCRA. We obtained and analyzed loan-level data, institution-specific summary data, or both, from four financial institutions (three large single-family mortgage servicers and a large credit union). A fifth institution (a large single-family servicer) we contacted was unable to provide us with data for inclusion in our review. We did not identify financial institutions to protect the privacy of individual borrower data. Table 2 provides a summary of the data we obtained.

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<sup>1</sup>Pub. L. No. 108-189, 117 Stat. 2835 (codified as amended at 50 U.S.C. app. §§ 501 – 597b).

<sup>2</sup>The Honoring America's Veterans and Caring for Camp Lejeune Families Act of 2012, Pub. L. No. 112-154, § 710(e), 126 Stat. 1165, 1209, mandates that GAO (1) report on the impact of the mortgage-related protections and the varying periods during which servicemembers receive protection from foreclosure and (2) assess the partnerships established by the Secretary of Defense to provide servicemembers with financial education and counseling. Limitations in the availability and quality of financial institution data restricted our reporting objectives and our analysis of the various SCRA protection periods. Consequently, we developed reporting objectives consistent with these limitations, and we have noted specific data limitations throughout this report, as appropriate.

**Table 2: Summary of Data Obtained from Selected Institutions**

Data type	Financial institutions			
	1 Loan-level	2 Loan-level	3 Loan-level and Summary	4 Summary
Time frame	Monthly, Jan. - Sept. 2013	Year end, 2011 - 2012	Quarterly, 2007 Q1 - 2013 Q3	Q4 2012, Q2 2013
Comparison group	Non-SCRA military	Identified non-SCRA military	Loan-level: no comparison group; summary data: remainder of portfolio	Non-SCRA military and all borrowers
Identification of military	Check military status of all borrowers against DOD information	Identifies military when initiating foreclosure proceedings, or when notified by borrower	Identifies military when initiating foreclosure proceedings, or when notified by borrower	Check military status of all borrowers against DOD information
Financial well-being data	Loan status, credit scores	Loan status	Loan status	Loan delinquency and cure rates
Interest rate data	Provided interest rate at origination and currently	Not provided	Not provided	Not provided

Source: GAO analysis of financial institution data.

We conducted a quantitative analysis of the data, which included information on (1) loan history, including loan status and total fees; (2) loan details such as the loan-to-value ratio and principal balance; and (3) financial outcomes of borrowers, such as initial and updated credit scores and whether the borrowers filed for bankruptcy or cured mortgage defaults. After controlling for loan and demographic characteristics and other factors to the extent that such data were available, we developed logistic regression models to estimate the probability of different populations becoming delinquent on their mortgage and curing their mortgage delinquency (by bringing their payments current). The estimates from these models may contain some degree of bias because we could not control for economic or military operations changes, such as changes in housing prices or force deployment that might affect a servicemember's ability to repay a mortgage.

Our analysis is not based on a representative sample of all servicemembers eligible to receive SCRA mortgage protections and therefore is not generalizable to the larger population. Moreover, we identified a number of limitations in the data of the four financial institutions. For example, the various servicer datasets identify SCRA status imperfectly and capture activity over different time periods with

different periodicities. We also cannot rule out missing observations or other inaccuracies.<sup>3</sup> Other issues include conflicting data on SCRA eligibility, data reliability issues related to the DOD database used to identify servicemembers (which is operated by the Defense Manpower Data Center, or DMDC), data quality differences across time within a given servicer's portfolio, and data artifacts that may skew the delinquency statistics for at least one institution. Lastly, as servicer systems vary across institutions, none of the servicers from which we requested data provided us with every data field we requested for our loan-level analysis. Due to the differences in the data provided by each institution, we conducted a separate quantitative analysis of the data from each institution that provided loan-level data. To the extent that data were available, we also calculated summary statistics for each institution on the changes in financial well-being of the servicemembers, which allowed for some basis of comparison across institutions in levels of delinquency and cure rates.<sup>4</sup> To conduct as reliable analyses as the data allowed, we also corrected apparent data errors, addressed inconsistencies, and corroborated results with past work where possible. Through these actions, and interviews with knowledgeable financial institution officials, we determined that the mortgage data and our data analysis were sufficiently reliable for the limited purposes of this report. However, because some servicer practices related to SCRA have made it difficult to distinguish SCRA-protected servicemembers from other military personnel, the relative delinquency and cure rates we derived from these data represent approximations, are not definitive, and should be interpreted with caution.

Furthermore, we analyzed data from DOD's Status of Forces (SOF) surveys from 2007 to 2012, which are administered to a sample of active duty servicemembers and reservists on a regular basis and cover topics such as readiness and financial well-being. We determined the survey data we used were sufficiently reliable for our purposes. We also analyzed DOD data on the size of the active duty military population and DOD survey data to estimate the percentage of servicemembers who

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<sup>3</sup>Our sample of financial institutions included servicers that were cited by banking regulators in 2011 for errors in foreclosure processing, including failures to provide SCRA protections to eligible servicemembers.

<sup>4</sup>We have insufficient data to evaluate the causes of the wide differences in delinquency and cure rates across institutions—for instance, we were unable to account for many factors that can determine a borrower's chances of experiencing delinquency and of curing a delinquency.

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make payments on a mortgage and may be eligible for SCRA protections, and the percentage of military borrowers that our sample of borrowers from selected financial institutions covers.

Lastly, we also interviewed two lawyers with knowledge of SCRA, five selected financial institutions, DOD officials (including those responsible for individual military services, the Status of Forces Surveys, and a database of active duty status of servicemembers), and representatives of military associations and selected financial institutions to obtain available information or reports on the impact of SCRA protections on the long-term financial well-being of servicemembers and their families.

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## Information on DOD Partnerships

To examine the effectiveness of DOD's partnerships, we analyzed documentation on DOD's partnerships with public and private entities that provide financial education and counseling to servicemembers. For example, we reviewed memorandums of understanding DOD signed with the federal agencies and nonprofit organizations engaged in its Financial Readiness Campaign. We reviewed the nature of such partnerships, including information or efforts related to SCRA mortgage protections.

We also conducted interviews with DOD officials, including the program manager of DOD's Personal Financial Readiness Program and personal financial managers in each of the individual military services; selected DOD partners that provide SCRA-related education to servicemembers; a military support association; and two lawyers with knowledge of SCRA. We asked about how such partnerships provide SCRA mortgage education and counseling and gathered views on and any assessments of the partnerships' effectiveness.

We conducted this performance audit from June 2013 to January 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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# Appendix II: GAO Contact and Staff Acknowledgments

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## GAO Contact

Lawrance L. Evans, Jr., (202) 512-8678 or [EvansL@gao.gov](mailto:EvansL@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Cody Goebel, Assistant Director; James Ashley; Bethany Benitez; Kathleen Boggs; Abigail Brown; Rudy Chatlos; Grant Mallie; Deena Richart; Barbara Roesmann; and Jena Sinkfield made key contributions to this report.

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## Public Affairs

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